

Demir, Gönenç; Cagle, Melissa N.; Dalkılıç, A. Fatih

Article

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Corporate Social Responsibility and regulatory initiatives in Turkey: Good implementation examples

Gönenç Demir^a, Melissa N. Cagle^{a1}, A. Fatih Dalkılıç^a

^a*Dokuz Eylul University, Izmir, Turkey*

Abstract: Generally speaking, the integration of stakeholder theory with CSR is fairly well understood. We see that these concepts have, not unlike the development of CSR under the literature, followed a similar vain in Turkey and the current agenda values strong engagement with all stakeholders and advancement of business growth. Especially, within the last decade CSR legislation and requirements have been the topic of extensive discussion. Turkey has seen an influx of activity and increasing pressure to further the CSR agenda and has gathered the backing of various events and organizations. In light of these developments, we attempt to explore the current social and economic environment within the country in regards to CSR practices. In this study, we offer detailed descriptions of the relevant CSR national laws and regulations on e.g. labour practices, human rights and environment and explore the current CSR reporting practices while offering descriptive evidence on the trend and future direction for CSR reporting statistics in Turkey.

Keywords: Corporate Social Responsibility, Regulation, Institutional Structure, Stakeholders, Turkey

JEL codes: K22, M14, M21

¹ *Corresponding Author:* Melissa Cagle, Dokuz Eylul University, Research Assistant at DEU Faculty of Business/Accounting & Finance Division. E-mail: melissa.cagle@deu.edu.tr

1. Introduction – the importance of investigating the institutional context and the role of stakeholders

Though underlying CSR motivations of organizations have evolved continuously over the years, the true modern view of corporate social responsibility began when Bowen (1953) emphasized organizations obligations to conduct decisions using society's values (Carroll, 1999). Following this view, McGuire (1963) later expanded the CSR concept for business needed to include all responsibilities of a private citizen to help solve social problems in society. Carroll (1991) on the other hand, further divided the CSR concepts into levels of economic, legal, ethical and philanthropic responsibilities which became an accepted corporate social responsibility outlook. However, within the last two decades we have seen a shift in the body of research of CSR (Wood and Jones, 1995) and a gradual integration of CSR with stakeholder theory.

Generally speaking, the integration of stakeholder theory with the CSR view is fairly well understood in the literature. Carrol (1991), stated that there is a natural fit between CSR to stakeholder/management and that focusing on the stakeholder perspective would put a name/face on groups who are most important to business and to whom the business should be responsive; while Freeman and Evan, (1991) stated that addressing and balancing the claims of multiple stakeholders would increase efficiency for adoption of external demands. Also, as inferred from Clarkson's (1995) study, it is easier for the business/managers, who are trained in the processes of marketing, finance, accounting departments (etc.) to understand the terms of social responsibility and obligations from the context of customers, shareholders, employees (etc.).

These views of Corporate Social Responsibility (CSR) have been discussed extensively in Turkey over the years. Especially, within the last 5 years, Turkey has seen an influx of activity and increasing pressure to further the CSR agenda. Circumstances, various events and organizations have continued to shape the CSR motivations and views of Turkish organizations, such as; the widespread growth of multinational corporations and increasing environmental concerns (Tanimoto & Suzuki, 2005), investor and stakeholder demand for information under the decision making process (Wills, 2003; Skouloudis *et al.*, 2010) the guidance of the BIST and various critical meetings such as; the G20 Antalya Summit, the COP 21 Paris Sustainable Innovation Forum. These issues were evaluated under the study and we determine that, not unlike the development CSR has followed under the literature, the current agenda values strong engagement with all stakeholders and advancement of business growth. Consequently, the emerging influence of CSR under strategic decision making and firm interactions with large groups of stakeholders has highlighted the need for evaluating the Turkish perspective and activities within the current sustainability movement. In order to accomplish this, a

three-step analysis is proposed to explore the current social and economic environment within the country in regards to CSR practices.

Under the first part of our study we offer detailed descriptions of the CSR legislation adopted in order to facilitate the incorporation of CSR activities within Turkey. Currently there is no specific governmental department responsible for CSR as a whole. However, various organizations have taken active roles in order to facilitate the adoption. These activities are backed with relevant national laws and regulations on e.g. labour practices, human rights and environment and are analyzed in detail under our study. To the best of our knowledge, a limited number of studies have been conducted exploring the current Turkish CSR legislation within a wide range of economic, legal, ethical and philanthropic CSR concepts. We next explore the current CSR reporting practices and offer descriptive evidence on the trend for CSR reporting statistics in Turkey. Lastly, we address various critical events that continue to shape the CSR motivations and views of Turkish organizations and explore the future path CSR is expected to take in the near future.

2. Research approach

In light of the social and economic developments within Turkey, we offer descriptive evidence to serve as an indicator of the current trend for CSR reporting statistics. A descriptive analysis was conducted on the data derived from the full sample of Turkish firms' sustainability reports published under the GRI Database.

The data was collected by hand and consisted of the reports; title, publication year, reference type, report type, application level, report status, sector and sector supplement usage was recorded. As the number of sustainability reports published under the website increases by each day, the sample size was restricted to those already uploaded by the 25th of February 2015. Thus, the initial sample size for the recorded reports was 178, however a cursory analysis of the data showed that a total of 2 reports were duplicates and were deleted from the sample. This resulted in a final sample of 176 GRI reports to be employed under the analysis.

The definitions and classifications concerning the organizational and report profile information for the Turkish sustainability reports listed under the database was collected by hand from the official GRI website. The data collected consisted of the firms name, size, sector, listing status under the stock exchange; the sector supplement usage, report type, application level, reference, report status for each report is listed for firms operating in Turkey. We explore the current CSR reporting practices and offer descriptive evidence on the trend for CSR reporting statistics in Turkey. And determine that both listed and non-listed firms are part of the

sustainability movement in Turkey and that the combined efforts of the Borsa Istanbul Stock Exchange and various organizations have led to the gradual improvement of the levels of non-financial “environmental, social and corporate governance” performance.

And also we provide information on the Turkish legislation. As mentioned above there is no separate code for CSR in Turkey. However, when conducting a content analysis on the CMB regulations, we found stakeholders-focused CSR requirements. Following this, we specifically searched the new Turkish Commercial Code No. 6102 for regulations concerning the Stakeholder rights and Board of Directors Responsibilities. Lastly, employing use of an electronic Turkish Legislation search database we look for laws and regulations containing the words “corporate social responsibility” and “social responsibility”. We discover that for listed companies the board of directors are obligated to report CSR activities under the annual reports of the company. Additionally, the board of directors are charged with the responsibility of acting sensitively towards the firms’ stakeholders concerning various social responsibilities, ethical rules and complying with the regulations with respect to environment, consumers and public health. Corporations are also obligated to support and respect the internationally recognized human rights. Corporation shall combat against any kind of corruption including embezzlement and bribery.

3. Practices and regulatory initiatives

3.1 Analysis by stakeholders

Rather than the existence of laws on the books, or voluntary codes, Berglöf and Claessens (2004) argues that at least in developing countries and transition economies, enforcement is key to creating an effective business environment and good corporate governance. However, researchers are also of the opinion of balancing the need for flexibility under regulation with enough certainty and enforcement to achieve environmental objectives (Benson & Garmestani, 2011). Under the Turkish perspective, we see examples of both. In the following sections we provide detailed information on various CSR supportive legislations, regulations and international agreements concerning the national agenda.

Directive 2014/95/EU

The adoption of the Directive 2014/95/EU by the European Union Council identified a need to increase the similarly level of non-financial disclosure transparency cross all Member States. Applicable by all large companies (all European-based firms of 500 employees or more as well as parent companies will need mandatorily disclose of nonfinancial information on the measuring,

monitoring and managing of undertakings' performance and their impact on society) under the EU Member States, the directive has led to the development of requirements concerning national procedures to be put into place in order to enforce compliance and disclose environmental, social, and governance information by 2017.

The directive highlights the multidimensional nature of corporate social responsibility and promotes the need for CSR policies matched by a sufficient level of comparability to meet the needs of investors and other stakeholders and the need to provide individuals with easy access to information on the impact of businesses on society. These requirements are to be listed either within the annual corporate report or as a separate filing. However, if separate filings are made, it should either be published with the management report or be made publicly available on the company's website (6 months within the publication of the balance sheet date) and referred to within the management report and these reports should, at a minimum cover the following topics (Directive 2014/95/EU):

- environmental matters,
- social and employee aspects,
- respect for human rights,
- anticorruption and bribery issues, and
- diversity in their board of directors.

The Directive does not restrict companies ESG disclosure format and makes reference to recognized international guidelines, such as the United Nations Global Compact, ISO26000, OECD and GRI. Additionally, the “comply or explain” principle was adopted by the directive. If a company fails to the above mentioned non-financial matters, they will have to explain their reasoning under their annual reports.

As a current EU Member applicant, Turkey has applied the “comply or explain” approach since the year 2003, and the approach was made mandatory for listed firms since 2011. However, the “comply or explain” was described as being unsatisfactory and quite recently a joint project between the Turkish Capital Markets Board and the European Bank for Reconstruction and Development (EBRD) was launched in order to increase levels of corporate governance in Turkey. The chairman, Vahdettin Ertas of the TCMB states that “*the ‘comply or explain’ approach stands at the core of the corporate governance implementation,*” However, they also argue that in order to success with the “comply or explain” approach careful consideration needs to be made concerning explanations for implementation and disclosure. Both organizations are expected to continue to work together and offer training and guidance for providing this information and eventually increase the quality of reporting for listed firms.

G20 Summit in Antalya

Quite recently, the leaders of the G20 countries met a summit held in Antalya/Turkey and conducted discussion on the importance of an inclusive business as a tool to achieving the new sustainable development agenda. A comprehensive framework was presented for governments and the private sector to support and expand inclusive business goals, which were addressed as: advancing inclusive growth and entrenching confidence tools, the use of all policy tools and strong engagement with all stakeholders. The framework presents options for governments, companies and international financial institutions to promote and support inclusive business in four core policy areas: enhancing financial resources and providing financial incentives, information and raising awareness at all market levels; and enhancing the capacity of both inclusive businesses and establishing an enabling environment; people at the base of the economic pyramid.

COP 21 Paris Sustainable Innovation Forum

In line with discussions on multistakeholder dialogue, representative voices from business, public sector, UN bodies, NGO, youth, faith and indigenous peoples brought innovations, technologies and finance to the debate table. They supported to establish and build partnerships between business, government and public bodies to accelerate international sustainable development and advance the ‘green economy’ by generating a platform where stakeholders can share knowledge. The “ambition mechanism agreement was reached between G20 countries and requires countries to review and increase their emission reduction commitments every 5 years in order to meet the long term goal of Sustainable Development and greenhouse gas neutrality by the second half of century.

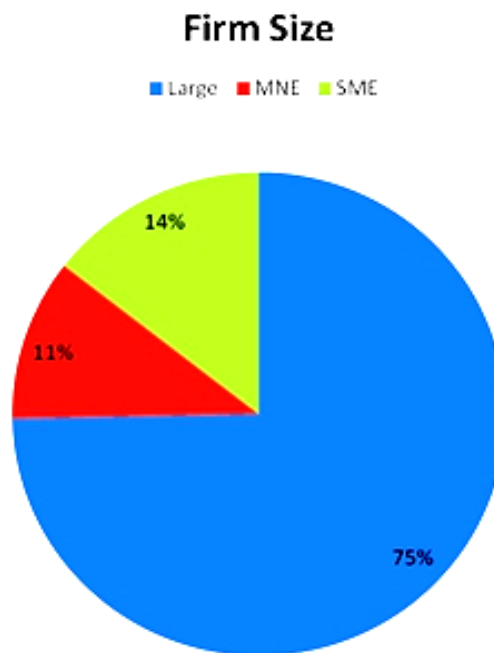
The Global Reporting Initiative

The GRI published a draft version of its sustainability reporting guidelines in 1999 and the first version of reporting guidelines published in June 2000 and subsequently updated in 2002, 2006 and 2011 the current version G4 of the Guidelines is in effect and was launched in May 2013. The aim of the current version is described as to “help reporters prepare sustainability reports that matter—and to make robust and purposeful sustainability reporting standard practice” (GRI, 2016). The amendment process of the guidelines has an extensive due process and encompasses various groups of stakeholders across a wide range of sectors and organizations. The guideline allows for the consolidation of different codes and norms for sustainability (the OECD Guidelines for Multinational Enterprises, the UN Global Compact Principles, and the UN Guiding Principles on Business and Human Rights) and as mentioned above, is one of the one most widely employed international framework. Currently there are 98 countries publishing sustainability reports under the GRI Database.

3.2 CSR practices

The definitions and classifications concerning the organizational and report profile information for the Turkish sustainability reports listed under the database was collected by hand from the official GRI website. The data collected consisted of the firms name, size, sector, listing status under the stock exchange; the sector supplement usage, report type, application level, reference, report status for each report is listed for firms operating in Turkey. We explore the current CSR reporting practices and offer descriptive evidence on the trend for CSR reporting statistics in Turkey. The results of our analysis are presented below.

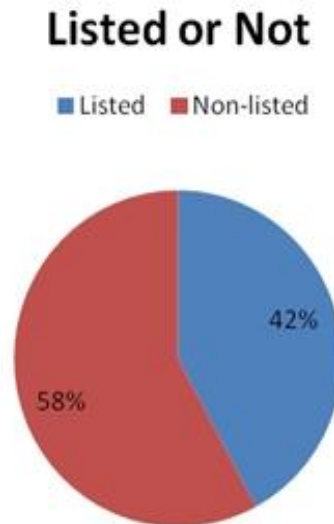
Table 1. Firms size composition of the sample



We employed use of the GRI classification measurements when evaluating the organization size of our sample firms. These classifications consist of three elements which are the number of employees, the annual turnover amount and the balance sheet total. However, the annual turnover amount and the balance sheet total are interchangeable for determining the organization size. We see that the employee count for Small and Medium-sized Enterprises (SME) is 250, while this amount is above 250 for Large and Multinational Enterprises (MNE). Additionally, the annual turnover and balance sheet total for the SME classification is listed as 50 million Euros and 43 million Euros and less, while this amount is above 50 million Euros and 50 million Euros for Large and MNE', respectively. From the

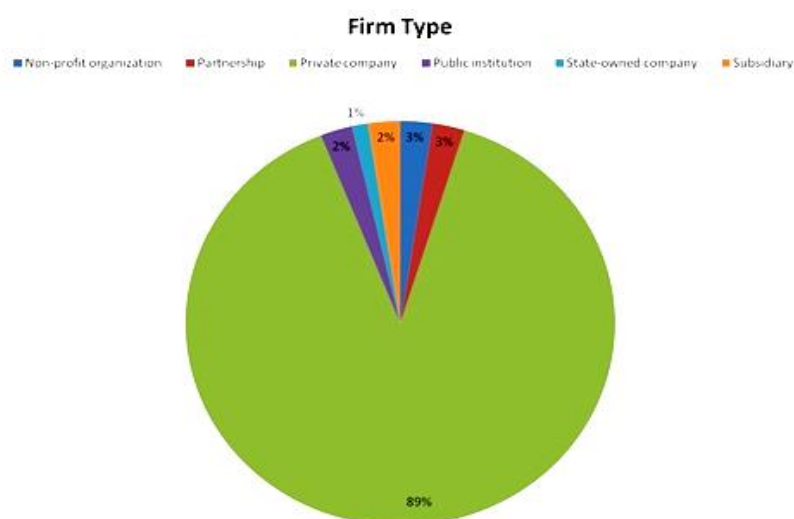
descriptive analysis conducted on the sample we determine that out of the sample 86% of firms are Large and Multinational in size, while the SME's make up only 14% of reporting firms. From this, it is apparent that larger firms are leading the sustainability movement in Turkey.

Table 2. Listing status of the sample



We next analyze the listing status of firms on the Istanbul Stock Exchange (BIST). Over the last few years the Borsa Istanbul stock exchange has been working together with various regulators, and other partner exchanges in order to improve the levels of non-financial “environmental, social and corporate governance” performance under listed and non-listed firms, and to encourage sustainable investment. Additionally, the listed firms (CMBT Corporate Governance Principles) and non-listed firms (TCC 375/2) are obligated to report companies CSR activities and expenses on the annual reports. Quite recently, the Exchange additionally committed to publishing a “Handbook for Sustainability Guidance” that would target all companies. Thus, we support that the CSR efforts in Turkey encompasses a wide range of firms. The results of these activities are reflected under Table 2 as the distribution covers a balanced percentage of firms. Thus, not only do we expect an increase in organizations sustainability activities in the near future, we expect the distribution to reflect the current listing status of organizations.

Table 3. Firm types



As mentioned before, the Turkish CSR agenda values strong engagement with all stakeholders and advancement of business growth. This is reflected under the current CSR legislation, which targets the reporting practices of private organizations. Thus, when compared across other firms under our sample, we see that “Private Companies” dominate reporting firms by 89%.

The first Turkish sustainability report was published in the year 2005 under the GRI Database and we have seen a gradual increase in the number of reports published since then. In the year 2011 the Turkish Commercial Code No. 6102 came into effect, this date corresponds with an increase in reports published under the initiative. Under the GRI classifications, organizations are separated into 37 sectors. By analyzing the reports published under the GRI Database according to these classifications and separating them across the published year, we determine that although a wide range of sectors take part under the initiative the Financial Services, Conglomerates, Textiles and Apparel, Health Care Product, and Energy sectors are much more active. We additionally analyze the usage of sector supplement reports under the sample firms. As sectors face unique situations, these reports were initially launched in order to ensure sector relevant information was captured in sustainability reports. These issues are listed under the GRI (2016) as; noise measurement for airports, the resettlement of people for mining and metals companies, animal welfare for the food processing industry, and program effectiveness for non-governmental organizations. By analyzing the supplementary reports published under the Database we also determine that 7 firms under the financial sector and 2 firms each under the Mining & Metals, Airport Operators, Oil & Gas, Electric Utilities and Food Processing employ use of these supplements.

Table 4. Information on the sector and publication year of the sample

Sector	Publication Year										Total
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Financial Services						2	2	2	6	8	20
Other								2	1	4	7
Food and Beverage Products				1		2	2	1	2	3	11
Construction Materials							2	2	1	3	8
Logistics						1	1	1	1	1	5
Construction								1	1	2	4
Conglomerates				2	1	4	6	7	4	4	28
Computers					1				1		2
Commercial Services										1	1
Public Agency					1		1				2
Textiles and Apparel		1	2	1		3	1	3	2	3	16
Non-Profit / Services						1					1
Chemicals								1	1		2
Energy Utilities							1	1	1	1	4
Universities							1	1			2
Health Care Products							4	6	4	2	16
Aviation							1	1	1		3
Technology Hardware									1		1
Metals Products	1			1					1	1	4
Healthcare Services								1		1	2
Automotive						1	1	1	3	3	9
Telecommunications					1	1	2	3		3	10
Energy				1			3	1	3	4	12
Media									1		1
Consumer Durables				1		1	1	1	1		5
Total	1	1	2	7	4	16	29	36	36	44	176

Even though most firms do not specify the reference type or principles employed under their report, we determine that 77 reports were prepared according to the United Nations Global Compact. 19 reports were prepared employing use of multiple reference types the United Nations Global Compact and its principles, the ISO 26000 clauses, the annual Carbon Disclosure Project (CDP) responses and the IFC Performance Standards. Additionally, 94 reports went through a GRI Application Level Check, while 21 reports were self-declared and that the application level of these reports was not confirmed by GRI or another third-party. We also analyzed the extent to which the GRI Sustainability Reporting Framework has been applied to our sample report and determined that 49, 11, 71, 3 reports were for the levels GRI - G3.1, GRI - G4, GRI - G3 and GRI - G2, respectively. However, 29 reports didn't base their reports on the GRI Guidelines and disclosed information on their firms economic, environmental, social and governance performance without reference. We also determine that 22 reports were externally assured according to the GRI's 7 engagement key qualities for external assurance.

3.3 Good implementation examples

Ararat and Göcenoğlu (2006) list the best CSR activities in 2005 which are recognised by a jury composed of business representatives, experts, academicians and press in 2005 were as follows:

- Eczacıbasi Group pioneered establishment of a “Modern Art Museum” in Istanbul, the very first in Turkey
- Kagider (Women Entrepreneurs Association), has set up a fund to finance small enterprises and civil society organizations initiated by Anatolian women
- Show TV, a privately owned TV channel, has sponsored a project to build schools in rural areas and provide scholarships to students
- TOBB(Turkish Chambers of Industry and Commerce), set up a foundation which established a modern University in Ankara
- Yapi Kredi Pension Fund, sponsored a project to protect genetic sources of and commercial cultivation of Turkish saffron plant
- Mercedes-Benz Turk, initiated and sponsored a project to financially support girls' vocational education in less developed regions of Turkey
- Garanti Bank, in cooperation with the World Wildlife Foundation, sponsored a project to protect the wild life in Kure Mountains
- Procter & Gamble sponsored a project to help children with puberty problems
- Turkish Banking Association financed procurement of medical equipment by health centers that are used in health care of premature babies
- Pfizer sponsored a project called “Social Teams” to support civil society initiatives.

Ararat and Göcenoğlu (2006) conclude that none of the projects are related with the actual business of the corporations. They can all be categorised as philanthropy or corporate giving at best and they fall in the public relations activities regardless of the decision makers' motives.

Borusan Group, Koc Group and Turkcell are selected as the top CSR practicing companies for analysing Turkish context. These groups have improved practice in the CSR subject at Turkey. Their practice is guiding other companies and will increase of awareness for importance of CSR. Information regarding these companies from has been gathered by reviewing web sites of the corporations.

Koc Group

KOC Group has a special part devoted to CSR in its code of ethics. Article 3.4 defines CSR activities as support efforts that will contribute to economic and social development; and being sensitive to matters that interest society and support efforts to improve the community. Koc Group's flagship project Vocational Education: A Crucial Matter For The Nation (MLMM) is initiated in 2006 with collaboration of Vehbi Koç Foundation, Ministry of National Education and Koç Holding, with the intention of creating awareness in all segments of society on the importance of vocational technical education, and leading the community in order to spread seeds of cooperation between the government and the business world. By time, the project has so far been involved in by 264 vocational high schools and 8,000 vocational high school students, as well as by 20 Koç Group Companies of different scales and industries, and by over 350 employees as volunteers.

As a part of the project, various companies are matched to vocational high schools giving education in their fields of business, in order not only to increase the employability of youngsters, but also to contribute to training of qualified human resources needed by companies.

These matches have by time spread from scholarship, internship and volunteer mentorship supports provided to vocational high school students to curriculum, materials and laboratory supports to schools with the intention of improving the educational infrastructure and contents in schools, thereby adapting them to the cutting-edge technologies, depending on the needs and facilities of schools and companies. This structure, named by time as "School - Company Matching Model" with the addition of such components as scholarship, curriculum, laboratory, internship, personal and vocational development and employment supports, is based upon the aim of building bridges between education and business world by developing industry-based collaborations between vocational schools and business enterprises. As a part of its "the Vocational High Schools: A Matter of Country (MLMM) Project", Koç Holding is striving to spread its above cited model in corporate, industrial and political level.

Turkcell

Turkcell is one of the leading company in the field of CSR activities in Turkey. The “Snowdrops”, developed by Turkcell jointly with the Association in Support of Contemporary Living in 2000, is a scholarship project aimed at providing equal opportunities in education for underprivileged girls mainly in rural areas of Turkey. With Snowdrops, Turkcell’s long-term goal is to decrease female illiteracy in Turkey, providing social, financial and moral support to 10.000 young Turkish women each year. In the scope of this project 29.000 female students are provided with scholarships, 15.000 students graduated from high school, 1450 graduated from universities, becoming teachers, computer programmers, lawyers or accountants. The program not only empowered girls but also improved the lives of their families. Snowdrops, has been crowned with following prestigious awards both nationally and internationally;

- 2002 – WEPR’s (The Foundation of Women Executives in Public Relations) Crystal Obelisk
- 2005 – PR News – CSR Awards Honourable Mention
- 2008 – European Sponsorship Association Business to Community Winner
- 2012 – World Communication Awards – Corporate Social Responsibility Winner

Borusan Group

Borusan has been committed to contribute to culture and arts in Turkey. Maintaining its musical activities uninterruptedly together with the Borusan Istanbul Philharmonic Orchestra (BIFO) and the Borusan Quartet, Borusan Art has been providing musical scholarship for young and talented musicians since 2005. Borusan Art, taking its domain beyond the national borders, assumes the role of Turkish representative of ISCM (International Society for Contemporary Music), a reputable organization having over 50 member countries worldwide, by positioning itself in an international network of music. Additionally, it serves as the official member of EMC (European Music Council) which is the European organization of IMC (International Music Council) incorporating over 60 member countries.

3.4 Regulatory initiatives

3.4.1. Corporate Social Responsibility

As mentioned above, there is no separate legislation on CSR in Turkey. Also we cannot say that there are detailed legislative regulations on CSR. For public companies it is obligatory to report CSR activities. Beside this there are several legislative regulations in various codes, directives and manifest. Several components of what CSR includes have been regulated in respective laws, including but not limited to Constitution article 172, 4857 Labor Law, 2872

Environmental Protection Law and 5346 Renewable Energy Law. Accordingly, protecting labor, environment, human rights and anti-discrimination are all regulated by respective laws and by laws.

Additionally, there is no specific governmental department responsible for CSR as a whole in Turkey. There is no CSR specific legislation either. However, Turkish companies are subject to the relevant national laws and regulations on labor practices, human rights and environment.

As there are laws related to CSR issues, its governance is also dispersed into different ministry positions such as:

- Ministry of Environment and Forestry – Environment
- Ministry of Trade and Industry – Standards
- Ministry of Labor and Social Security – Labor Issues

Besides these, there are agencies working on some of the CSR related issues. Capital Markets Board of Turkey (CMBT) is the regulatory and supervisory authority in charge of the securities markets in Turkey. Empowered by the Capital Markets Law (CML), which was enacted in 1981, the CMB has been making detailed regulations for organizing the markets and developing capital market instruments and institutions for the past 25 years in Turkey. Based on the main objectives of fair and orderly functioning of the markets and protecting the rights of investors, the CMBT has a wide range of responsibilities. However, the major objective is to take the necessary measures for fostering the development of capital markets, and hence to contribute to the efficient allocation of financial resources in the country while ensuring investor protection. Accordingly, the CMB is the regulatory body for Corporate Governance issues.

3.4.2 Public companies

Board of Directors Responsibility on Reporting

In legislation corporate social responsibility is covered under corporate governance principles designated for public companies. CMBT Published in the Official Gazette dated 3 January 2014 and numbered 28871. Communiqué consist also Corporate Governance Principles in the first annex.

Taking into consideration the Board of Directors responsibility about CSR activities Communiqué stated in the article 2.2 that: All information required to exercise shareholders' rights in a sound manner should be made available to all shareholders. The information should be submitted as complete, accurate and in a timely and diligent manner by board of directors. Moreover, according to CG principles the company should be considerate of its social responsibilities; should act in accordance with the company's ethical rules and rules with respect to the environment, the consumers and the public health.

In conclusion, it is obligatory that board of directors of listed companies must report social right of workers, professional training of workers and generating social and environmental consequences of company activities in the annual report.

In our opinion it is important that listed companies are obligated to report their CSR activities. Although it is not mandatory to execute CSR activities, it is obligated to report them in the annual report to the stakeholders. We also find interesting that the Communique define CSR activities as;

- social right of workers,
- professional training of workers
- generating social and environmental consequences of company activities

The function of auditors and audit report is to contribute to the development of accurate and reliable information for interest groups. However, the auditor's responsibility does not only encompass the assurance of financial information but environmental, ethical and social compliance information as well. This especially holds true in developed countries where auditors are concerned with the state of sustainability of the business. The need for such information is highlighted with the recent scandals involving large organizations. However, as mentioned above Turkey has no regulation and practices regarding ethics and social audit, thus the efforts concerning sustainability of businesses are only featured under environmental reporting. The regulation and legislation mentioned below were developed with the aim of aiding professionals in assessing environmental, ethical and social issues however, as most organizations lack individual's proficient in evaluating environmental issues, we foresee that the strict regulatory restrictions will be put into place in order to ensure accurate reporting.

Ethical Rules and Social Responsibility in Capital Markets Board of Turkey (CMB) COMMUNIQUÉ ON CORPORATE GOVERNANCE

Communiqué on Corporate Governance article number 3 arranges stakeholder rights. Stakeholders are persons, institutions or interest groups that are related with the achievement of goals or activities of the corporation such as employees, creditors, clients, suppliers, syndicates, several non-profit organizations.

Article 3.5 states that; the corporation in its transactions and activities shall protect the rights of the stakeholders which have been regulated in legislation and reciprocal contracts. The operations of the corporation shall be carried out in accordance with the ethical rules disclosed to public via the corporate website.

Also article 3.5 states that corporation shall be sensitive towards its social responsibilities and comply with the regulations and ethical rules with respect to environment, consumers, public health. Corporation shall support and respect the internationally recognized human rights. Corporation shall combat against any kind of corruption including embezzlement and bribery.

As can be seen from the above articles CMB Communiqué on Corporate Governance board of directors has the liability of the company's social responsibility activities. In the article 3.5 Communiqué defines CSR activities as:

- Be in rapport with ethical Rules which is published via the corporate website
- Comply with the laws related to the environment
- Comply with the laws related to consumers
- Comply with the laws related to public health
- Supporting the human Rights
- Combat against any kind of corruption including embezzlement and bribery.

In conclusion it is obvious that the Communiqué regulates CSR comprehension relating to stake holders.

Corporate Governance Corporate Governance Principles Compliance Report

CMB Corporate Governance Principles that are adopted and not adopted by the company, reasons for not applying the principles and conflicts of interest resulting from not wholly adopting these principles will be disclosed in this report.

Compliance report should have disclosed information about corporations CSR activities like:

- information on activities concerning the environment, region and the public
- supported/pioneered social trainings, social studies towards the people in the region
- information on law suits against the company regarding damages given to the environment,

3.4.3 Non-listed companies

Board of Directors Responsibility on Reporting

It is obligatory that board of directors of listed companies must prepare annual reports like listed companies. Turkish Commercial Code No. 6102 article 375 regulates no assignable duties and authorities of board of directors. Article 375/f regulates the reporting duties of directors. According to article 375/f the board must prepare the annual reports and corporate governance statement.

Article 11 of Regulation on the Minimum Content of Companies Annual Reports regulates the necessary issues that one of them is to disclose "Information on donations and grants spending in the framework of social responsibility projects,".

In conclusion, taking into consideration the regulations article 11 in the annual reports boards of non-listed companies must disclose CSR activities and their expenditures. As in listed companies, non-listed companies are not obligated to execute CSR activities but they must disclose them in the annual report to the stakeholders.

Stakeholders Rights in the Turkish Commercial Code

Turkish Commercial Code, does not regulates stakeholders' rights in detail but Tekinalp (2015) states that the directors of the companies are also obligated to protect stakeholders.

3.4.4 Other regulations on CSR in the Turkish Law

There are several other regulations concerning CSR activities under Turkish Law. International treaties and conventions are the main source of these CSR regulations in Turkey. As these treaties and conventions cover most fundamental issues on human rights, child labour, forced labour, non-discrimination, freedom of association and the right to collective bargaining they are all important to develop standards for socially responsible behaviors of companies.

Additionally, regulations on the working life, Labor Law (No.4857) and Unions and Collective Bargaining Law (No.6356) consist of several regulations about CSR. These codes regulate the working conditions and work-related rights and obligations of employers and employees working under an employment contract.

Finally, there are several codes and legislation about CSR activities which regulates commercial transactions in Turkey. Banking Law, Declaration of Wealth, To Combat Against Bribery and Corruption Law, Consumer Protection Law, Regulations on Commercials and Unfair Trade Practices, The Act on the Protection of Competition are the main regulations which consist several provisions about CSR.

Also the regulations on environment should not be overlooked. Environment Law, Renewable Energy Law and the Kyoto Protocol are the main regulations in Turkey concerning environment-CSR related clauses.

For the detailed information on other CSR regulations in Turkey please refer to the Appendix.

3.4.5 The BIST Initiative

While more developed countries have seen the involvement of Professional Bodies under the social responsibility movement, these efforts have been spearhead by the Borsa Istanbul stock exchange (BIST) in Turkey. As one of the founding signatories of the Sustainable Stock Exchanges (SSE) initiative, the BIST has been working together with investors, regulators, and other partner exchanges in order to

improve the levels of corporate transparency and non-financial “environmental, social and corporate governance” performance under listed firms. The motivation of the initiative is listed as encouraging sustainable investment. They aim to carry out environmental and social consciousness activities to increase and improve corporate governance under a single program and to integrate these activities into the decision-making processes and operations of Borsa İstanbul.

The first meeting of the SSE was conducted in the year 2009 and in the year 2012 five participating stock exchanges made a public commitment to sustainability and became SSE Partner Exchanges. The first five SSE Partner Exchanges are listed as follows; BM&FBOVESPA, the Egyptian Exchange, Johannesburg Stock Exchange, Borsa Istanbul and Nasdaq. However, the number of partner exchanges have now increased dramatically over the years and has reached a number of 53 exchanges.

In January 2014, the Borsa Istanbul Stock Exchange launched the Sustainability Index and during the commitment meeting agreed to publicize the sustainability-related activities of its members and listed companies on its website. Additionally, they promised to publish the “Handbook for Sustainability Guidance” for companies whose capital markets instruments are or may potentially be listed on Borsa İstanbul.

3.4.6 BIST and Integrated Reporting

Quite recently, Borsa İstanbul, with the joint efforts of Corporate Governance Association of Turkey (TUSIAD) and the Global Compact, put together the “New Enterprise Reporting Period: Integrated Reporting” seminar in order to determine a road map on integrated reporting (BIST, 2015) and emphasized that Turkey has been left behind in integrating IR into the business strategy. Since 2012 and onward, the Corporate Governance Association of Turkey has been an active member in the convergence towards Integrated Reporting (IR) and has strived towards creating awareness for integrated thinking under Turkish firms (TKYD, 2015). With The Turkish Presidency of the Group of 20 and the International Integrated Reporting Council’s willingness to hold the 2014 meeting in Istanbul, the association had the opportunity to showcase their commitment for the convergence. In December 2014, the association held a panel titled “Integrated Reporting and Value Creation” where they shared the latest IR developments with Turkish practitioners. Under the panel, Yılmaz (TKYD, 2015), stated that incorporating integrated thinking and reporting under Turkish firms would be very useful, however that Turkey still had a long way to go before this issue could be realized. They also stated that when the convergence is completed, IR would not be a mandatory under BIST because firms are still not ready for such a mandatory application. However, that it would be under evaluation for the future. Eccles and

Krzus, (2010) state that IR helps to satisfy the information needs of stakeholders and is a driving force for organizational change towards more sustainable outcomes and Stubbs and Higgins, (2012)'s results of an interview conducted states that IR is seen as the next step of the evolution of SR, while Adams and Simnett, (2011) proposes that CSR is evolving into Integrated Reporting. Thus, the motivation, for the proposed future heading of CSR reports from these perspectives are deemed important, and to reflect the current trend in Turkey.

4. Concluding comments

Although CSR and its various elements are currently being discussed extensively all over the world, the topic is longstanding and constitutes an important part of the relationship between businesses and society. However, the various actors in CSR shape country expectations and practices under different conditions and dynamics. CSR activities has been discussed extensively in Turkey over the years. Especially, within the last 5 years, Turkey has seen an influx of activity and increasing pressure to further the CSR agenda.

Circumstances, various events and organizations have continued to shape the CSR motivations and views of Turkish organizations, such as; the widespread growth of multinational corporations and increasing environmental concerns (Tanimoto & Suzuki, 2005), investor and stakeholder demand for information under the decision making process (Wills, 2003; Skouloudis *et al.*, 2010) the guidance of the BIST and various critical meetings such as; the G20 Antalya Summit, the COP 21 Paris Sustainable Innovation Forum. As a result, participation in CSR activities widened especially after 2003. In 2003, government changed the income tax and corporate income tax laws. The new arrangements provide tax cuts to contributors of health and education through CSR projects. Therefore, sensitivity of social issues may not be the only reason for the increase in the number of CSR projects. However, the success of these activities and campaigns, which have raised large amounts of supplementary funds for the education system in Turkey, largely derives from the fact that Turkish society sees education as a priority for its children (Akyıldız, 2015). Foundation universities deserves a closer look as stated in Ararat (2008). The model is based on a partnership between government and privately funded foundations whereby the government allocates the land, oversees the quality of education, and the foundation channels funds from businesses to the universities. Foundation universities are non-profit institutions by law. This topic deserves more attention to understand wealthy families' motives for supporting higher education as a CSR activity.

The fact that supporting education seem to be the preferred choice of the corporations, one may conclude that the Turkish society expects the corporations to support education and these projects contribute more to the brand value.

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Appendix

Although there is no specific law on CSR in Turkey, there are issues that found a space in several sources.

International Treaties and Conventions

The main source of the legal framework is the international treaties and conventions that Turkey has signed. Main human rights issues in the business context include child labor, forced labor, equal opportunities and non-discrimination, freedom of association and the right to collective bargaining.

Some of these treaties and conventions are:

- Universal Declaration of Human Rights,
- Convention on the Rights of the Child,
- OECD Guidelines for Multinational enterprises
- Conventions of International Labor Organization:
 - Equal Remuneration Convention (1951),
 - Discrimination (Employment and Occupation) Convention (1958),
 - Worst Forms of Child Labor Convention (1999),
 - Right to Organize and Collective Bargaining Convention (1949).

As these conventions cover the most fundamental human rights issues especially on working rights and elimination of child labor, they are all important to set up standards for socially responsible behaviors of companies. In this sense, following up these human rights issues and ratifying these conventions set up an important scene for Turkey and Turkish companies to build and to implement CSR policies.

Under ILO/IPEC guidance and cooperation, and within the framework of “Assistance to Enhance the Status of Women Workers and Combat Child Labor Project” Ministry of Labor and Social Security has been implementing various projects to decrease the level of child employment in Turkey since 1991.

Regulations on the Working Life

Labor Law No. 4857

The purpose of this Act is to regulate the working conditions and work-related rights and obligations of employers and employees working under an employment contract. Code consist several regulations about CSR. As example

- Law forces companies to employ disabled people that represents the positive discrimination.
- Regulation on the working conditions.
- Procedures for workers under 18 years-old.
- Elimination of child labor, forced and compulsory labor.
- Prevent and address actual or potential child labor and forced labor incidents are free from discrimination based on race, gender, age, sexuality, national origin or religious beliefs.

- Respecting the right to association: Employees have a right to join trade unions and freely associate as long as it is compliant with the relevant laws and regulations in Turkey.
- Labor practices involve occupational health and safety, training and skills development.
- Occupational health and safety, use of personal protective equipment at the workplace
- Providing access to skills development, training and opportunities for career advancement will increase employee motivation and possibly result in lower employee turnover rates.

Unions and Collective Bargaining Law No. 6356

In 2012, Turkey's parliament passed a new "Unions and Collective Bargaining" law, replacing the much criticized earlier legislation. This new law replaces the old act. 2821 (Trade Union Law) and act. 2822 (Collective Labor Agreement, Strike and Lock-Out Act). After publication in the Official Gazette, it entered into force on November the 7th, 2012.

The main changes brought from this new piece of legislation are:

- The reduction of the amount of industrial sectors from 28 to 20.
- The possibility for non-Turkish citizens to become union members.
- The reduction of the age limit from 16 to 15 for becoming a union member.
- The possibility for employees who work for multiple employers to become member of several labor unions.
- The abolishment of the former need for a notary act to become a union member.
- The reduction of the 'double threshold' to 3% on the industry level and 50%+1 on the company level.
- The possibility for strike actions in educational services and notary.

The Banking Law No.5411

The Banking Law No.5411 dated November 1, 2005, includes provisions regarding corporate management principles. These principles are mostly concerned with the management of the banks and formations of relevant bodies. However, the law refers to Board of Capital Markets and dictates that the corporate management principles shall be defined in cooperation with the Board. Most of the Turkish banks declare and advertise that their mission is not only limited to banking services. Their mission is to create and contribute to long-term sustainable projects in areas such as education, culture, art, sports, and environment which will develop individual and society. And they actually invest a lot in these activities, even in environmental causes. However, it is not part of their product design. Banks also emphasize their support for small and medium enterprises (SME) and women entrepreneurs. In a country like Turkey SMEs and women entrepreneurs mean a lot for social development.

Declaration of wealth, to combat against bribery and corruption law No.3628

Declaration of Wealth, Combating against Bribery and Corruption Law No.3628 aims to have supportive tool to fight against bribery and corruption by forcing individuals related to public work – including the owners of media, presidents of organizations whose activities are considered to be benefiting the public – to represent their lists of assets and properties.

Social Responsibility in Turkish national accounting regulations

The social responsibility concept is highlighted and defined in many laws and regulations. According to our research it had been defined in two different ways.

- The Union of Chambers and Commodity Exchanges of Turkey (TOBB)'s regulation 5th article
- Governmental Accounting Office's regulation 29th article
- Tradesmen and Artisans Professional Organizations accounting regulation 5th article are related to social responsibility.

According to These articles social responsibility points out the responsibilities of accounting in fulfilling its function and shows the context, meaning, place and target of accounting. Social responsibility concept expresses the necessity of protecting the benefit of the whole society in preparation and presentation of accounting and execution of the applications.

The another definition of social responsibility exists in the law that governs CPAs in Turkey. Under this law these areas are arranged ethical standards in accounting profession as: Responsibility against profession; Responsibility against client; Responsibility against public; Social responsibility reporting.

Consumer Protection Law No.6502

The Law on Consumer Protection, dated 23.02.1995 and numbered 4077, was the first specific law to include provisions aimed at the protection of consumers in Turkish Law. On the other hand, in order to establish coherence between the Turkish and EU legislations and to harmonize the Turkish Law of Obligations and the Turkish Commercial Law, which entered into force in 2012, the need to examine the main legislation related to consumer rights was raised, and as a consequence Law No. 6052 ("the Law"), published in the Official Gazette dated 28.11.2013, has emerged. the new Law provides more detailed regulations and sanctions in the need to protect consumers originates from various causes. The necessity to protect consumers through legal provisions arises from the fact that consumers often do not have enough knowledge when concluding legal transactions. One of the important provisions of the Law relates to the issue of consumers concluding various contracts, such as for periodic vacation, long term vacation, contracts which are closed outside the workplaces, prepaid and distance contracts, distance sales of financial and loan services, without effectively examining the terms because of the attraction of such transactions and enticing marketing tactics.

Although the law does not incorporate any provision directly related to corporate social responsibility, some provisions facilitate the procedures for the consumers to be compensated for the losses they had to bear due to purchasing faulty goods and services. The law envisages the formation of Consumer Courts where consumers can file any

company for faulty goods sales or services provision without any dues and fees. The law also gives way to the closure of goods producers and services providers if their goods and/or services are found to be faulty. Compensation for consumers are also dictated in the law.

Regulations on commercials and unfair trade practices

According to article 7 of the Regulation; commercials should be correct and fair. Also it is regulated that the commercials should be prepared according to economic and social responsibility principles and to not lead to unfair competition.

The Act on the protection of competition No. 4054

The purpose of this Act is to prevent agreements, decisions and practices preventing, distorting or restricting competition in markets for goods and services, and the abuse of dominance by the undertakings dominant in the market, and to ensure the protection of competition by performing the necessary regulations and supervisions to this end (Art 1). In Turkey, Competition Authority serves to ensure the formulation and development of goods and services markets in a competitive environment in accordance with Law No. 4054.

Agreements, decisions and practices which prevent, distort or restrict competition between any undertakings operating in or affecting markets for goods and services within the boundaries of the Republic of Turkey, and the abuse of dominance by the undertakings dominant in the market, and any kind of legal transactions and behavior having the nature of mergers and acquisitions which shall decrease competition to a significant extent, and transactions related to the measures, establishments, regulations and supervisions aimed at the protection of competition fall under this Act.

Environment Law No.2872

Economic activities have an impact on the environment resulting in e.g. pollution, climate change and biodiversity loss. The main environmental aspects are energy, water and raw material consumption; emissions to air, solid waste and wastewater. Some environmental aspects are also relevant for human health and occupational safety. Toxic waste, hazardous chemicals, noise, odour, vibration, electromagnetic emissions and radiation all fall under this category.

The objective of this Law is to protect and improve the environment which is the common asset of all citizens; make better use of, and preserve land and natural resources in rural and urban areas; prevent water, land and air pollution; by preserving the country's vegetative and livestock assets and natural and historical richness, organize all arrangements and precautions for improving and securing health, civilization and life conditions of present and future generations in conformity with economic and social development objectives, and based on certain legal and technical principles (2872 art. 1).

Law no. 2872 on Environment and all related regulations pertaining to e.g. air and water pollution and control, waste framework, pollution prevention and control and hazardous chemicals. In addition, Law no. 5627 on Energy-efficiency and all related regulations including energy-efficiency in buildings and energy-efficiency for industrial facilities.

Renewable Energy Law No. 5346

The purpose of this law is to expand the utilization of renewable energy sources for generating electric energy, to benefit from these resources in a secure, economic and qualified manner, to increase the diversification of energy resources, to reduce greenhouse gas emissions, to assess waste products, to protect the environment and to develop the related manufacturing industries for realizing these objectives.

With the adoption of the Renewable Energy Law No. 5346, dated May 10, 2005, that aims to encourage the use of renewable energy resources in Turkey, thereby decreasing the nation's dependence on energy imports and fulfilling international obligations by reducing green-house gas emissions. It is supposed to contribute to domestic employment and socio-economic integration, enhances supply security by resource diversification and extends the periods for the utilization of fossil fuel reserves. The law also seeks to bring Turkey's energy policies in line with those of the European Union.

Kyoto Protocol

A bill on Turkey's adoption of a participation in the Kyoto Protocol had been approved by the Turkish Parliament on February 5. The Kyoto Protocol is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC OR FCCC), an international environmental treaty produced at the United Nations Conference on Environment and Development (UNCED), informally known as the Earth Summit, held in Rio de Janeiro, Brazil, from 3-14 June 1992. The treaty is intended to achieve "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system."

The Kyoto Protocol establishes legally binding commitments for the reduction of four greenhouse gases (carbon dioxide, methane, nitrous oxide, sulphur hexafluoride), and two groups of gases (hydrofluorocarbons and perfluorocarbons) produced by industrialized nations, as well as general commitments for all member countries.

Income Tax Law

Besides these laws trying to limit negative company effects, there are also supportive laws for companies' involvement in CSR. CSR related tax incentives are stated at Income Tax Law No. 193. According to Article 89 of this law, companies benefit from tax incentives for their charitable contributions and donations on the field of education which in fact triggered the support of corporations to the special campaigns such as "100% Support to Education" and "Girl's Let's go to School" which are organized by Ministry of Education and UNICEF. Tax exemption can also be granted in Turkey for donations made to organizations whose activities are considered to be benefiting the public. Organizations can be granted such status by the cabinet only, in case they focus on one of the four areas: education, health, scientific research, and arts and culture. About 200 foundations out of approximately 3,500 private foundations have been classified as serving 'public good'. In this sense, tax exemptions are only for philanthropic donations.

As Akyıldız (2015) and concludes with many other researchers (Alakavuklar *et al.*, 2009; Ararat, 2008; Özden, 2004) CSR focuses more on philanthropy rather than subjects such as workers' rights and workers' safety in Turkey because these require more time and effort. CSR as corporate philanthropy has the following effects:

- Corporate philanthropy and sponsorships are provided.
- Short-term benefits are available but these are not always sustainable.
- Limited funds are available.
- Its impact is diluted because limited budgets are allocated to many charities.
- Corporate competencies and other business assets are not fully utilised. There is a misalignment between business and social responsibility strategies and functions.
- It results in minimal social and business impact of social programs

Besides these laws trying to limit negative company effects, there are also supportive laws for companies' involvement in CSR. CSR-related tax incentives are stated at Income Tax Law (Gelir Vergisi Kanunu). According to Article 89 of this law, companies benefit from tax incentives for their charitable contributions and donations on the field of education that, in fact, triggered the support of corporations to special campaigns such as '100% Support to Education' and 'Girl's Let's Go to School', which are organized by the Ministry of Education and UNICEF.

Participation in CSR activities widened especially after 2003. In 2003, government changed the income tax and corporate income tax laws (Kurumlar Vergisi Kanunu). The new arrangements provide tax cuts to contributors of health and education through CSR projects. Therefore, sensitivity of social issues may not be the only reason for the increase in the number of CSR projects. However, the success of these activities and campaigns, which have raised large amounts of supplementary funds for the education system in Turkey, largely derives from the fact that Turkish society sees education as a priority for its children.

Basar and Basar (2006) have analyzed CSR in the annual reports of the companies included on the BIST 100 index. According to their findings Turkish companies generally emphasize human resources and health & safety issues in their reports regarding CSR activities. Energy and environment generally takes only a very small place.

Another study highlighted in CSR Turkey baseline report (2010) has been done in 30 universities. The study analyzed how CSR is performed at the undergraduate level. Because there is no direct information about CSR on the websites of the universities, it is hard to access information. Hence there are several findings which can be useful. CSR is an area which is analyzed under different topics such as business ethics marketing, public relations and social entrepreneurship. While few universities have CSR academies, most of the universities have social responsibility units and lessons for undergraduates. Social Responsibility lessons are mostly mandatory in which students develop projects by working together with NGOs and doing several philanthropic activities. Social Responsibility lessons which focus on the individual responsibilities of students developed rapidly after 2000 while CSR topic is still at a developing stage.

Robertson (2009) makes a comparative study of CSR in Singapore, Turkey, and Ethiopia and finds that CSR is responsive to country differences in terms of firm ownership structure, corporate governance, openness of the economy to international investment, and the role of civil society and concludes that development in the economy and increase in the level of international competition leads to a more effective CSR context. Akyildiz (2012)

compares UK and Turkey and finds that CSR activities in UK has more of a sustainable development dimension; on the other hand, CSR activities in Turkey look like corporate philanthropy. Kaytaz and Gül (2013) focuses on banking industry. The banks which use CSR or sustainability as part of their marketing activities are more on the economic and social initiatives of CSR. That is, they support cultural, human resource development, educational, charitable, energy saving and environmentally sensitive projects. According to Kaytaz and Gül (2013) the integration of social and environmental considerations into products, mission and strategies of banks is in an embryonic stage for a few banks.

Ascigil (2003), in her unpublished survey conducted for TESEV explored management attitudes towards CSR in Turkey. Using Carroll's (1979) and Aupperle's (1994) contextualized questionnaires, Ascigil found that 75% of the managers included in the survey gave priority to economic criteria when making decisions whereas 19.11% gave priority to ethical criteria and only 6% to legal criteria. Ascigil notes that Turkish managers do not differentiate between legal and ethical responsibilities as evidenced by the structural analysis of their responses Ascigil notes that the mere existence of a mission statement positively affects management attitudes towards CSR and that companies' awareness of CSR increases with post graduate education and with an increased share of foreign capital.

Ararat (2008) interviewed four of the largest international institutional investors to find out whether they take social performance into consideration when selecting companies to invest in. They had the opinion that since CSR is not rewarded by Turkish society, that ignorance of CSR would not expose the companies to risks. They agreed that a proactive position would indicate a forward-looking leadership but it would have no effect on their investment levels. Institutional investments are largely based on financial models. In the absence of adequate information and of standard reporting on social and environmental performance, these parameters are unlikely to be included in value analysis. Therefore, contrary to what one may expect, we conclude that the increase in foreign portfolio investments was not a driver for CSR in Turkey.